STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

PRIMEONE INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2017

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SALUTATION

June 11, 2019

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

PRIMEONE INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as the "Company" and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

This is the first full scope examination by representatives of the Utah Insurance Department (Department) since the Company re-domesticated to the state in 2016. The examination is for the period of January 1, 2015 through December 31, 2017. The previous examination as of December 31, 2014 was conducted by the Michigan Department of Insurance and Financial (Michigan Department). Material transactions or events occurring subsequent to the examination date, if any, which were noted during the course of this examination are also included. The purpose of this examination is to assess the financial condition of the Company and its holding company system.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause Company surplus to be materially misstated both currently and prospectively. Key activities reviewed during this examination were Capital and Surplus, Investments, Reinsurance Ceded, Reinsurance Assumed, Related Party, Reserving and Claims, and Underwriting.

The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating Company compliance with Statutory Accounting Principles, Annual Statement Instructions, and all applicable state statutes. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the financial statements section of this examination report.

This examination report includes significant findings of fact about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Johnson Lambert, LLP audited the financial statements of the Company for the years ending December 31, 2015 and 2016. JLK Rosenberger, LLP audited the financial statements of the Company for the year ending December 31, 2017. Workpapers prepared by the independent auditor, JLK Rosenberger, LLP, for the year ending December 31, 2017, were reviewed and relied upon to the extent deemed appropriate. Certain auditor workpapers were incorporated into the examination workpapers.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings for inclusion in this examination report.

COMPANY HISTORY

The Company is a property casualty insurance company previously owned by Michigan One Funding, LLC (MOF). The Company was originally incorporated on October 13, 2009, and authorized to write business in the State of Michigan beginning on December 22, 2009. On April 28, 2014, MOF voluntarily placed the Company into run-off and began to non-renew its remaining policies.

On December 31, 2014, the Company was purchased by Freyja Holdings, Inc. (Freyja). Freyja was approved by the Michigan Department to start issuing policies again. Freyja was established on September 11, 2014, for the purpose of acquiring the Company and functions as its holding company.

Effective December 6, 2016, the Company re-domesticated from Michigan to Utah, and is currently licensed to write business in the states of Arizona, Michigan, New Mexico, Nevada and Utah.

Dividends and Capital Contributions

As of December 31, 2017, the Company has 10,000,000 shares of $1 par value common stock authorized, and 9,500,450 shares issued and outstanding.

As part of the 2014 purchase, the Company went through a quasi-reorganization and with the permission of the State of Michigan, reset its unassigned funds to zero as of December 31, 2014. The Company incorrectly applied Statement of Statutory Accounting Principle No. 72 in 2014 when resetting the unassigned surplus. This resulted in negative gross paid in and contributed capital. This error was discovered subsequent to year end and corrected in the third quarter of 2017, with the knowledge and involvement of the Department. The net impact to capital and surplus is zero as this is merely a correction of a previous reclassification.

During the first quarter of 2018, Freyja sold its minority shares to two independent investors, each receiving 8.92% ownership in return for $2,800,000 of capital. The funds were received by Freyja in March 2018 and subsequently distributed to the Company. The Department allowed the Company to recognize a capital contribution receivable and corresponding contributed surplus of $2,800,000 within the 2017 Amended Annual Statement.

The Company paid no dividends during the examination period.

MANAGEMENT AND CONTROL

The Articles of Incorporation and Bylaws govern Company operations. The Company is managed and controlled by the Board of Directors (Board). Regularly scheduled Board meetings are held once a year, with special meetings of the Board held on an as-needed basis. The Directors are elected on an annual basis by the shareholders, with a requirement for a minimum of 3 Directors. However, if the Company has fewer than three voting shareholders the minimum Board members may be equal to or greater than the number of shareholders.

Board

The following persons served as Directors as of December 31, 2017:

Name	Position Held and Affiliation	Year Appointed
David Clifford Thorson	President, CEO, UCP; PrimeOne	2015
Tracey Lynn Thorson	Treasurer, UCP; PrimeOne	2015
Michael Bennett	Director and Managing Partner; Crewe Capital	2016
Grant Rowan	Director & Co-Founder and CEO; Porch Software	2016

Committee

The entire Board serves as members of the Audit Committee and Investment Committee of the Company. No formal minutes of these committees are retained.

Officers

The following persons served as officers of the Company as of December 31, 2017:

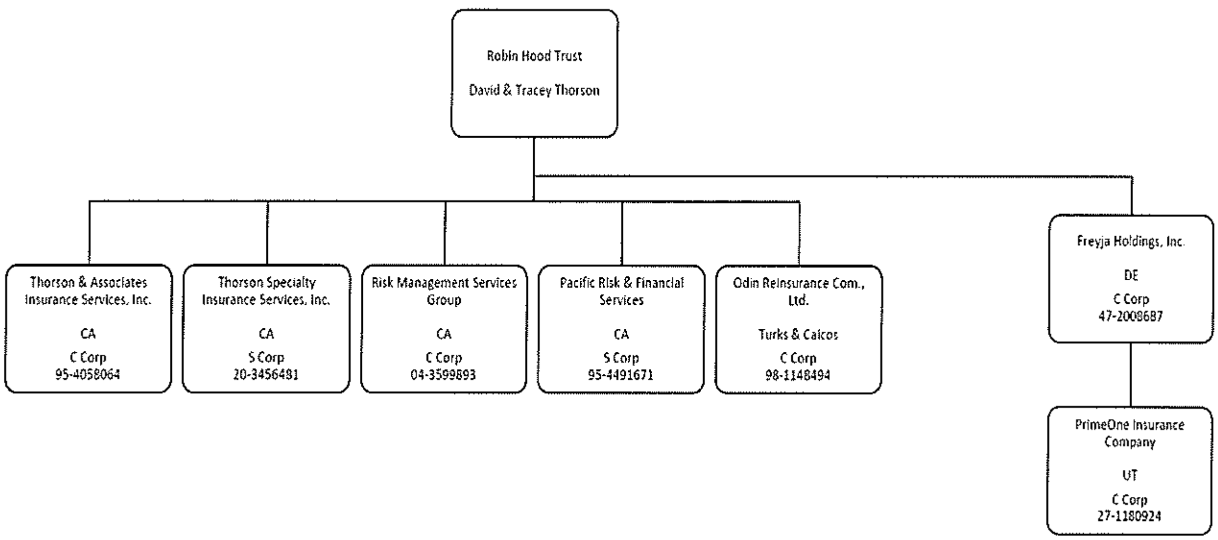
Name	Position Held	Year Appointed
David Clifford Thorson	President, CEO, Director	2014
Tracey Lynn Thorson	Treasurer, Director	2014
Traci Joanne Wood	Secretary	2017

Holding Company System

The Company is a wholly owned subsidiary of Freyja, which is 100% owned by the Robin Hood Trust (Trust). David and Tracey Thorson are the sole beneficiaries of the Trust, and David and Tracey Thorson are the majority shareholders along with 2 minority shareholders' (each with <9.0% ownership) positions based on their capital contributed to the Company through Freyja. The Company is the only insurance company in the holding company system.

The Company only has a few employees and most of its services are provided by its parent, Freyja, and affiliated companies. The holding company Ultimate Controlling Parties (UCP) are David and Tracey Thorson. The UCP comprises half of the Board.

The organizational chart at December 31, 2017 is as follows:



Affiliated Agreements and Transactions

Administrative and Management Services

As of January 1, 2015, Freyja provides administrative and management services in connection with the licensing, marketing and operation of the Company. A monthly fee consists of direct expenses in addition to a fixed fee of $35,000. During 2017, eight months of service fees were incurred and reported at the discretion of Freyja. The corresponding services were performed for the entire calendar year.

Managing General Agent

As of January 1, 2015, Thorson Specialty Insurance Services, Inc. (Thorson), serves as the managing general agent for the Company and provides brokerage services including application processing, oversight of underwriting, policy issuance, and general administration of the overall underwriting and claims process.

Claims Handling Services
As of March 24, 2015, a monthly fixed fee of $2,500 is paid directly to Risk Management Services Group, Inc. (RMSG), an affiliated company of Thorson, for claims handling services. Subsequent to the examination period, effective April 1, 2018, the Company entered directly into a contract with David Corporation for the necessary claims services and claims system access previously provided by RMSG, thereby eliminating the need for the Claims Handling Services Agreement from RMSG.

Guaranty Agreement
As of December 31, 2014, the Company entered into a guaranty agreement with Thorson related to an intercompany receivable from a former affiliate of the Company, National Fire & Indemnity Exchange (NIE). NIE has no intention of settling the intercompany balances until all policies expire in 2017. Thorson assumed responsibility for collecting the amounts due that were under the agreement between the Company and NIE as of December 31, 2014. Thorson guaranteed up to $250,000 of substantiated receivables.

Affiliate Loan
On October 27, 2011, the Company loaned $3,000,000 to PrimeOne Services, LLC (PrimeOne). The principal amount was due and payable in 40 equal consecutive quarterly installments of $75,000 and commenced on January 27, 2012. Interest is compounding quarterly at 4% on the unpaid principal balance. As of December 31, 2014, PrimeOne paid $1,700,000 of the outstanding balance of $2,100,000, which was in turn paid as an extraordinary dividend to MOF. As of December 31, 2014, the remaining principal balance of $400,000 was non-admitted. During 2016, the loan was written off with no impact on admitted assets.

TERRITORY AND PLAN OF OPERATION

The Company generates operating revenues from direct writings of commercial package and liquor liability products. Almost all of its business during the exam period was generated from the Michigan market. The composition of direct premiums written (DPW) by line of business during the exam period are outlined below. Not reflected in the tables below are assumed premiums during 2017 from Turk & Caicos Islands (TCI) Captive Reinsurers.

PERIOD (Dollars in 000's)	**2015**	**2016**	**2017**
Commercial multiple peril	3,929	5,077	5,933
Other liability - occurrence	361	575	685

The composition of DPW by state during the exam period are outlined below.

PERIOD (Dollars in 000's)	**2015**	**2016**	**2017**
Michigan	4,290	5,602	6,561
Utah		50	43
New Mexico			14
Arizona			-

COMPANY GROWTH AND SIGNIFICANT OPERATING RATIOS

The Company's net premiums written (NPW) to surplus ratio for the years under examination is as follows. The decrease from 2015 to 2016 corresponds to the timing of the reinsurance program put into place, and the 2016 to 2017 activity reflects the capital contribution receivable.

PERIOD (Dollars in 000's)	**2015**	**2016**	**2017**
NPW	4,035	2,205	2,467
Surplus as Regards Policyholders	7,623	8,013	10,443
NPW / Surplus (%)	.53	.28	.24

Capital levels continue to remain above Authorized Control Level. The change in surplus during 2017 reflects the capital contribution receivable.

PERIOD (Dollars in 000's)	**2015**	**2016**	**2017**
Surplus as Regards Policyholders	7,623	8,013	10,443
Change in Surplus	360	389	2,430
Authorized Control Level RBC	983	848	769

REINSURANCE

Assumed

In 2011, the Company began assuming reinsurance of lawyer professional liability risks on a 50% quota share basis with Wesco Insurance Company (Wesco). The Company is liable for 50% of the first $500,000 in losses per risk. In 2012, this treaty was renewed through March 31, 2013. As of December 31, 2017, this assumed reinsurance program continues on a run-off basis.

Legal/Arbitration action occurred between the Company and Wesco regarding a disagreement related to the amount of collateral required on the run-off of the lawyer professional liability coverage. As of December 31, 2017, the Company reports $2,700,000 of assets related to the funds withheld reinsurance agreement with Wesco, of which $1,500,000 are admitted assets. Subsequent to the examination period, the Company received approximately $271,000 of return cash collateral from Wesco that was recognized and booked during the year ending December 31, 2018.

Captives Reinsurers

On December 1, 2017, the Company entered into two quota share reinsurance agreements with the following Turk & Caicos Islands (TCI) Reinsurers: 1) Crossroads Group Company, Souls of Black Company, and Timber Lane Company, and 2) Roentgen (collectively, the Reinsurers). The Reinsurers utilize the Company as the TCI direct writer.

Under the terms of the reinsurance agreements, the Company is the issuing carrier. Certain entities purchasing policies are affiliated with the captive reinsurers as detailed within the respective agreements. These entities include: 3601 Sunflower LLC, Affliction Holdings LLC, Cyber Tech Lighting Inc., The Dye House, Forest Plywood, Massive Prints, MD International Baja S de RL de CV, 2035 E. Vista Bella Way, White Buffalo Holdings, LLC, 2055-2085 S Garey Ave, 20434 S. Santa Fe Ave, 1720 Apollo Court, 1799 Apollo Court, 1621 E. Spring Street, 4249 W. Glendale Ave, 3503 S. Harbor Blvd, 12151 Monarch Street, 11651/11681 Markon Drive, 29th Street, Noise Group, SD Observatory LLC, and Radnet Management, Inc.

The Reinsurers assume a 100% quota share percentage of the reinsurance risk, calculated based on the formula stipulated in the agreement, and premiums are ceded based on the same percentage. The Company receives a ceding fee between 2% and 4% of premiums ceded. Amounts are withheld by the Company for claims reserves to secure the payment of ceded liabilities and future claims.

Additionally, Funds Held and Use Agreements are in place, whereby the Company handles funds provided and/or withheld and pays all obligations of the Reinsurers on their behalf. A premium cession statement shall be provided by the Company to the Reinsurers within 75 days of the end of a policy year, with payments subsequently made by the Company to the reinsurers within ten days of receipt of the premium cession statement. Subsequent to the examination period, all appropriate premium cession statements have been completed and all appropriate funds have been returned to the Reinsurers by the Company with no claims or credit exposures remaining to/with the Company as of March 31, 2019.

<u>Ceded</u>

The primary loss mitigation strategy of the Company is the use of reinsurance protection with Swiss Re America (SRA) under the following arrangements as of December 31, 2017:

- Multi-line Excess of Loss
  FIRST
  Property: <u>Retention</u>: $300K per risk per loss; <u>Limit</u>: $700K per risk per loss, $2.1M aggregate risks per loss
  Casualty: <u>Retention</u>: $300K per loss; <u>Limit</u>: $700K per loss; $2.1M aggregate
  Combined: <u>Retention</u>: $300K per loss; <u>Limit</u>: $2.1M aggregate for Terrorism
  <u>Reinsurance Premium</u>: 10.70% of subject earned premium. Subsequent to the examination period, as of April 1, 2018, the rate was reduced to 10.0%.

  SECOND
  Property: <u>Retention</u>: $1M per risk per loss; <u>Limit</u>: $2M per risk per loss, $2.0M aggregate risks per loss
  Casualty: <u>Retention</u>: $1M per loss; <u>Limit</u>: $2M per loss, $2.0M aggregate
  Combined: <u>Limit</u>: $2.0M aggregate for Terrorism; $2M per loss, $4M aggregate
  Reinstatement: <u>Limit:</u> $2M per loss, $4M aggregate
  <u>Reinsurance Premium</u>: 2.75% of subject earned premium. Subsequent to the examination period, as of April 1, 2018, the rate was reduced to 2.60%.

- Casualty Excess of Loss

Retention: $1M per loss, Limit: $1M per loss; $1M aggregate for Terrorism; $2M per occurrence; $4M aggregate
Reinsurance Premium: 100% earned premium applicable to second $1M of policy limits
Commission: 30%

- Multi-line Quota Share
  Quota Share: 50%
  Property Limit: $150K per risk (50% share of $300K); $1M per loss (50% share of $2M)
  Casualty Limit: $150K per loss (50% share of $300K)
  Terrorism Limit: $600K aggregate
  Reinsurance Premium: 50% of unearned premium; 50% of subject Earned Premium.
  Commission: 42.5% of subject Earned Premium ceded.

LOSS EXPERIENCE

Charles R. Lenz, ACAS, MAAA, of Perr & Knight, Inc. was the appointed actuary for the years ending December 31, 2015 through 2017, who opined on the actuarial estimate of loss and loss adjustment expense reserves of the Company.

The examination actuary, David Heppen, FCAS, MAAA, of Risk and Regulatory Consulting, LLC, reviewed the summary of actuarial opinion, actuarial analysis and underlying supporting document and data provided by the Company. The examination actuary concluded that the methods, assumptions, and selections contained in the 2017 and 2018 reserve analysis of the opining actuary were reasonable. Loss reserve development has been modestly favorable suggesting management has adopted a reasonable philosophy in recording losses.

STATUTORY FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the years under examination. The accompanying notes (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

PrimeOne Insurance Company

Statement of Admitted Assets

As of December 31, 2017, 2016 and 2015

	2017	2016	2015
Bonds	10,767,479	10,743,987	5,975,505
Common stocks	-	1,920	489
Cash, cash equivalents, and short-term investments	3,315,997	1,289,552	8,097,424
Investment income due and accrued	61,821	60,815	28,714
Uncollected premiums and agents' balances in the course of collection	1,951,859	891,624	551,677
Reinsurance recoverable	402,554	115,659	35,993
Funds held by or deposited with reinsured companies	1,544,669	2,229,976	-
Other amounts receivable under reinsurance contracts	-	298,593	311,771
Net deferred tax asset	604,591	293,583	465,295
Aggregate write-ins for other than invested assets	2,915,000	-	-
Total admitted assets	21,563,970	15,925,709	15,466,868

PrimeOne Insurance Company

Statement of Liabilities, Capital and Surplus

As of December 31, 2017, 2016 and 2015

	2017	2016	2015
Liabilities			
Losses	1,658,659	2,434,555	4,024,870
Reinsurance payable	1,353,629	927,706	266,711
Loss adjustment expenses	393,988	588,499	1,013,166
Other expenses	23,083	39,000	48,000
Taxes, licenses and fees	70,963	18,123	14,083
Unearned premiums	1,295,965	1,721,363	2,274,242
Ceded reinsurance premiums payable	6,307,745	2,159,893	192,573
Provision for reinsurance	6,945	13,890	-
Aggregate write-ins for liabilities	10,015	10,015	10,015
Total liabilities	11,120,992	7,913,044	7,843,660
Capital and Surplus			
Common capital stock	9,500,450	9,500,450	9,500,450
Gross paid in and contributed surplus	4,000,000	-1,537,539	-1,537,539
Unassigned funds (surplus)	-3,057,472	49,754	-339,703
Surplus as regards policyholders	10,442,978	8,012,665	7,623,208
Total liabilities, capital, and surplus	21,563,970	15,925,709	15,466,868

PrimeOne Insurance Company

Statement of Operations

As of December 31, 2017, 2016 and 2015

	2017	2016	2015
Premiums earned	2,892,475	2,758,120	2,187,690
Losses incurred	492,501	(381,110)	90,392
Loss adjustment expenses incurred	828,597	866,629	534,123
Other underwriting expenses incurred	1,462,946	1,864,329	2,157,442
Aggregate write-ins for underwriting deductions	-	24,689	-
Total underwriting deductions	2,784,044	2,374,537	2,781,957
Net underwriting gain (loss)	108,431	383,583	(594,267)
Net investment income earned	239,393	191,475	(9,561)
Net realized capital gains (losses)	12,384	(400,000)	(74,880)
Net investment gain (loss)	251,777	(208,525)	(84,441)
Aggregate write-ins for miscellaneous income	191,980	-	-
Total other income	191,980	-	-
Net income (loss) before federal income taxes	552,188	175,058	(678,708)
Federal income taxes incurred	-	-	-
Net income (loss)	552,188	175,058	(678,708)

PrimeOne Insurance Company

Capital and Surplus Reconciliation

As of December 31, 2017, 2016 and 2015

	2017	2016	2015
Surplus as regards policyholders, December 31 prior year	8,012,665	7,623,208	7,262,911
Net income	552,188	175,058	(678,708)
Change in net deferred income tax	(85,049)	(72,330)	(99,606)
Change in nonadmitted assets	(843,771)	300,619	309,906
Change in provision for reinsurance	6,945	(13,890)	-
Change in surplus notes	-	-	(500,000)
Paid in surplus	5,537,539	-	1,200,000
Aggregate write-ins for gains and losses in surplus	(2,737,539)	-	128,705
Change in surplus as regards policyholders for the year	2,430,313	389,457	360,297
Surplus as regards policyholders, December 31 current year	10,442,978	8,012,665	7,623,208

SUMMARY OF EXAMINATION ADJUSTMENTS

There were no adjustments made to the financial statements as a result of this examination.

SUBSEQUENT EVENTS

There were no significant subsequent events for inclusion in this examination report.

ACKNOWLEDGEMENT

David Heppen, FCAS, MAAA, of Risk & Regulatory Consulting, LLC, performed the actuarial review of the examination. John Humphries, CISA, CFE, of Risk & Regulatory Consulting, LLC, performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, supervised the examination. In addition, Sarah Donald, CPA, of Risk & Regulatory Consulting, LLC, participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

Scott Eady, CPA, CFE
Risk & Regulatory Consulting, LLC
Examiner-in-Charge
Representing Utah Insurance Department

Malis Rasmussen, MSA, CFE, SPIR
Deputy Chief Examiner
Utah Insurance Department